



December 8, 2003

Alaska Department of Natural Resources  
Division of Oil and Gas, Units Section  
550 W. 7<sup>th</sup> Avenue, Suite 800  
Anchorage, Alaska 99501  
Attn: Chris Ruff

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DIVISION OF  
OIL AND GAS

Re: Expansion of Nicolai Creek Unit

Dear Mr. Ruff:

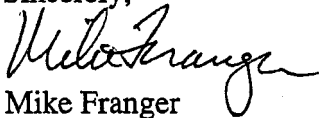
The Trust Land Office (TLO) has reviewed the information associated with the application of the expansion of the Nicolai Creek Unit that has been submitted by Aurora Gas, LLC (Aurora). While the federal government currently manages the oil and gas interests associated with Trust lands in the Unit, 90% of lease revenues derived from Trust land within the Unit will be forwarded to the Trust, giving the Trust a significant stake in the outcome of decisions made by the State of Alaska on this matter. With that in mind, the TLO has the following observations and comments:

1. The information that was submitted by Aurora at their preliminary application meeting on August 12, 2003 has been reviewed by the TLO and our consultant (Petrotechnical Resources Alaska, or PRA). A subsequent discussion between PRA and Andy Clifford at Aurora clarified some of the information presented. Andy indicated at that time that he was still refining some of his interpretations for the formal application submittal, but he did not expect to change the participating areas or unit boundary from what was presented at the 8/12/03 meeting.
2. The Aurora application was formally submitted on September 12, 2003. The configuration of the gas pools and the associated proposed participating areas were changed significantly from what was presented a month earlier, although to our knowledge no new data had been obtained by Aurora in that period of time. The productive acreage depicted on land the Trust has an interest in was reduced by over 50 % from the August submittal to the September one.
3. PRA met with Andy Clifford and Don Krouskop on September 24, 2003 to review the seismic and other data on which Aurora is basing their application. The consensus following that meeting was that the existing data is ambiguous and it is difficult to map individual reservoirs accurately.
4. There has been a significant amount of discussion about how to determine the outline of the proposed Participating Areas (PAs) within the proposed expanded Unit because the existing data is not definitive. Any interpretation of the data is only a geological model of the subsurface. An interpretation provides a framework for discussion from which

negotiation begins to reach a mutually acceptable outcome for all parties. Recognizing that Aurora has expended a significant amount of money collecting and interpreting data in the area, the TLO is inclined to refer to Aurora's original August submittal with respect to the proposed PAs. We realize that questions have been raised regarding the data that would support the original proposed Northern PA, but the same can be said regarding the data that would justify the reconfiguration of the Southern PA in the most recent proposal.

5. Aurora's original proposed Unit and PA boundaries should be modified because they have included acreage that their own interpretation indicates will not produce hydrocarbons.
6. The TLO supports the establishment of two PAs in the South and the requirement of a method of redetermination (including the Northern PA) in the future that is based on new data and is retroactive to the date of first production.
7. Because the existing data is ambiguous and open to interpretation, there is no absolute reason to believe that the acreage between the Northern and Southern PAs could not contain hydrocarbons. We request that further testing be required to try to determine this. In the absence of another well in this area (such as the previously proposed No. 7 well), we would like to see a pressure communication test between NCU #3 and NCU #9 to help determine if there is pressure communication across the projected cross fault separating the Northern and Southern PAs. Further, Aurora should provide a detailed cross-section between NCU #3 and NCU #9 to show the juxtaposition of the Tyonek and Beluga reservoirs at the projected cross fault.

Sincerely,



Mike Franger  
Senior Resource Manager

Cc: Stephen C. Planchon  
Steve Martinez, BLM  
Paul Daggett-PRA